

COLLIN COUNTY

Internal Control Policy

All County employees play a part in Collin County's internal control system. Ultimately, it is Collin County's managements' responsibility to ensure that controls are in place to safeguard its resources, assure accuracy and reliability of information and proper reporting of that information. That responsibility is delegated to each area of operation in the County so every employee has some responsibility for making the internal control system function. Therefore, all Collin County employees need to be aware of the concept and purpose of internal controls.

PURPOSE

The purpose of this administrative procedure is to define what constitutes internal controls, and to outline rules and procedures all employees must follow when internal controls are not in place or not followed.

SCOPE

This procedure applies to all Collin County employees.

DEFINITIONS

1. Internal Control - Refers to a system of financial checks and balances designed to provide assurance that money or other assets do not disappear or that mistakes do not occur.
2. Preventive Controls – Designed to discourage errors or irregularities from occurring.
3. Detective Controls – Designed to find errors or irregularities after they have occurred.

4. Fraud – Theft, intentional waste or abuse of County funds, property, records or time. (Review Collin County’s “Fraud Prevention and Detection” policy for a more detailed explanation of fraud.)
5. County Funds – Currency, checks, or other negotiable instruments belonging to the County of Collin, or for which the County is the fiscal agent.
6. County Property – Any tangible item owned by the County of Collin.
7. County Employee – This is a global term encompassing all individuals elected, appointed, hired or representing themselves to be working to the benefit and good of the County of Collin.
8. Avoidance of Established Internal Controls – When a county employee circumvents, ignores or misapplies departmental or county established internal, preventive and/or detective controls.
9. Retaliation – When an individual is discriminated against or penalized for reporting internal controls non-compliance or fraud, or for cooperating, giving testimony, or participating in any manner in an audit/investigation, proceeding or hearing.
10. Negligence – (n) The quality or state of being negligent; lack of due diligence or care; omission of duty; habitual neglect; heedlessness; carelessness. (adj) Characterized by neglect and undue lack of concern; negligent of detail; marked by insufficient care or attention.
 - A. A county employee’s lack of prudent care and/or inattention to one’s duty or responsibility to manage and protect county funds collected in the performance of official duties from loss or misapplication until deposited into the County Treasury.
 - B. The lack of prudent care and/or inattention to one’s duty or responsibility to manage and protect county property/assets from loss or damage.
 - C. A county employee’s failure to follow, intentionally circumvent, or failure to provide sufficient administrative control as stipulated in Collin County’s internal control and/or fraud policy.
 - D. A county employee’s failure to report or attempt to conceal actions intended to circumvent, ignore or disregard the internal control and/or fraud policy, in regards to their own or another’s culpability

BACKGROUND

1. Internal Controls are an integral part of the duties and functions of each department or office in the County and should be incorporated into the operational procedures and policies of each department or office to ensure resources are safeguarded, reports are reliable, policies and procedures are followed, and operations are conducted economically and effectively.
2. Key elements of Internal Control.
 - A. Organizational Controls requires adequate checks and balances to separate authorizing and performing a task from reporting responsibility.
 - B. Procedure Controls divide tasks to provide internal checks by specifying the work and responsibility of each employee.
 - C. Recording Controls maintain necessity for prompt, complete and accurate recording by every employee who prepares, approves, processes or summarizes any record.
 - D. Reporting Controls must be usable and present an accurate picture of what has occurred in a timely, complete, concise and accurate manner.
 - E. Analysis/Oversight Controls provide independent review and risk analysis of organization, procedures, recording and reporting.
3. Limitations of internal controls.
 - A. Subject to human error due to mistaken judgment, carelessness, misunderstandings or fraud.
 - B. Poorly written or poorly enforced internal controls allow fraud to occur. (For fraud questions review Collin County's "Fraud Prevention and Detection" policy.)
 - C. Implementation of sound internal control system and strong management practices can reduce weaknesses, but not eliminate them entirely.
 - D. The system should be reviewed periodically and revised when necessary to keep pace with changes in office policies, duties and personnel, in an attempt to prevent complacency and complicity.
 - E. Cost of controls exceeds potential benefit.
4. The County is committed to accurate, complete and honest financial reporting in all aspects of County business. The County is required to develop and maintain accounting systems that enable and support the preparation of accurate financial statements in accordance with statutes, applicable law, rules and accounting principles.

5. This policy is not intended to be a detailed study of every procedure or activity that constitute internal controls. Accordingly, the information presented in this policy should not be considered as all-inclusive of what might constitute internal controls.
6. Local Government Code §157.903 - Authority to Indemnify Elected and Appointed County Officers states: The commissioners court of a county by order may provide for the indemnification of an elected or appointed county officer against personal liability for the loss of county funds, or loss of or damage to personal property, incurred by the officer in the performance of official duties if the loss was not the result of the officer's negligence or criminal action.
7. Role of internal audit.
 - A. Internal auditing is an independent appraisal function established to examine and evaluate the adequacy and effectiveness of the organization's internal control system and its overall quality of performance.
 - B. Internal auditing furnishes Collin County management with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed.
 - C. Internal auditing reviews the reliability and integrity of information, compliance with statutes, policies and regulations, the safeguarding of assets, the economical and efficient use of resources, and established operational goals and objectives.
 - D. Internal audits may encompass all financial activities and operations within the County of Collin.

INTERNAL CONTROL

1. No employee shall, directly or indirectly, knowingly falsify, cause or allow to be falsified any book, record or account of the County. This includes expenditures, travel records, time sheets, approval of vendor invoices, case transaction records, or any other business/financial record of the County.
2. No entries should be made that intentionally conceal the true nature of any transaction or record of the County.
3. No funds or accounts should be kept for purposes not fully and accurately disclosed. Unrecorded or “off the books” funds or assets may not be kept for any purpose.
4. All County employees must protect County assets and ensure their efficient use. The County will not tolerate theft, misuse or waste of County assets. All County assets should be used strictly for legitimate County business purposes.
5. Applicable Internal Control descriptions with examples.

(Note: The following examples are not intended to cover all possible procedures or activities that constitute internal controls. Each department or office should design, implement, monitor and adjust internal control objectives for each activity or procedure as applicable. The County Auditor’s office would welcome any request for help establishing, changing or evaluating internal controls by a department or office.)

A. Adherence to all organizational procedures

1. Separation of duties
 - a. No one employee is functionally responsible for a financial or other business transaction from start to finish.
2. A departmental approved written office policy establishing employee duties, authorization levels, internal controls, etc., on file in every department or office.
 - a. Describe each employee’s duties and responsibilities and examples of those same duties and responsibilities.
 - b. Establish each employee’s scope of authority and the transactions that conform to that authorization.
 - c. Reference or document internal control procedures for the office or department.
 - d. Establish and describe restrictive access to monies, safe and other sensitive areas.

3. Competent management and employees.
 - a. Competent by education, experience and/or training to accomplish their assigned duties.
 4. Documents on file with appropriate county office.
 - a. Conflict of interest statements are completed and enforced.
 - b. Oaths of office completed and filed.
 - c. Education documentation maintained for audit.
 - d. Bonding of cash handling personnel.
 5. Rotation of duties and/or personnel in positions more susceptible to fraud.
 6. Overages/Shortages
 - a. Overages deposited with daily deposits to Treasury.
 - b. Shortages made up immediately by Department Director/Elected Official and deposited to Treasury.
- B. Adherence to Procedure Controls
1. Issuing or receiving assets
 - a. Checks stamped “For Deposit Only” immediately.
 - b. Receipt written for every financial transaction.
 - c. Assets may not be issued or received without proper documentation and approvals.
 - d. Payment requests documented with backup.
 - e. Change funds reconciled daily.
 2. Daily, timely and accurate deposits of all receipts to Treasury.
 3. Secure funds in safe when held overnight.
 4. Balance receipts for each cash drawer at the end of the day or shift.
 5. Restricting access to office, documents, equipment and personnel.
 6. Ensuring that employees take regular vacations.
 7. Follow established and documented internal controls as detailed in office policy.
- C. Adherence to Recording Controls
1. Transactions are recorded as executed, when executed, and properly classified.
 2. Every transaction is documented properly and timely with a receipt, docket sheet or case file entry, P.O., or other county approved documentation.
 - a. Clear documentation of cash receipts from the time of collection to the time of deposit.

3. Files maintained accurately and up-to-date, with timely recording of facts.
 4. Only approved and official Collin County receipts used for County business.
 - a. Collin County logo.
 - b. Unique tracking numbers.
 - c. Multiple copies.
 - d. Date of issuance.
 - e. Amount paid and what form of payment.
 - f. Subject of document
 - g. Initiator of document.
 - i. Payee information.
- D. Adherence to Reporting Controls
1. Maintain good accounting control over assets, liabilities, revenues and expenses.
 - a. Monthly reconciliation of bank statements; reconcile with checkbook register and ledger/report.
 - b. Asset movement, authorization and reconciliation
 2. Documentation easily available to meet audit requirements, detail internal control objectives and procedures, asset accountability, all transactions and/or any other business activities performed in the department or office.
- E. Adherence to Analysis/Oversight Controls
1. Independent reviews and monitoring of tasks.
 2. Department Director reviews reports, reconciliations, receipts and disbursements.
 3. Regular independent audits of areas susceptible to fraud.
 - a. Recount and verification of daily receipts.
 - b. Authorization level of document signer.
 - c. Vendor information.
 4. Evaluate audit findings and recommendations.
 5. Determine proper actions and response to audit findings and recommendations.
 6. Complete all actions that correct or otherwise resolve the audit findings within established time frames.

RESPONSIBILITIES

1. All County Employees.

A. Any employee who has knowledge of avoidance of established internal controls shall immediately notify his/her supervisor. If the employee has reason to believe that the employee's supervisor may be involved, the employee shall immediately notify the Department Director/Elected Official of his/her department. However, if the employee has reason to suspect that the Department Head/Elected Official may also be involved, the employee should contact the County Auditor or District Attorney. Every employee shall cooperate with administrative investigations pursuant to this administrative procedure. The employee shall not discuss the matter with anyone other than his/her supervisor, the Department Director/Elected Official, the County Auditor and the District Attorney. Failure to report the avoidance of established internal controls will be considered negligence and could result in disciplinary action or possibly termination.

B. Any employee who has knowledge of the lack of established internal controls shall immediately notify his/her supervisor. If, after notifying his/her supervisor, the employee finds that the employee's supervisor has not followed through on the notification, the employee shall immediately notify the Department Director/Elected Official of his/her department. If the employee finds that the Department Head/Elected Official has not followed through on the notification, the employee should contact the County Auditor. Every employee shall cooperate with administrative investigations pursuant to this administrative procedure. The employee shall not discuss the matter with anyone other than his/her supervisor, the Department Director/Elected Official and the County Auditor. Failure to report the lack of established internal controls will be considered negligence and could result in disciplinary action.

2. Supervisor.

A. Upon notification from an employee of avoidance of established internal controls, or if the supervisor has reason to suspect the avoidance of established of internal controls, the supervisor shall immediately notify the Department Director/Elected Official of his/her department. The supervisor shall not attempt to investigate the suspected avoidance of internal controls or to discuss the

matter with anyone other than the Department Director/Elected Official, the County Auditor and the District Attorney. However, if the supervisor has reason to suspect that the Department Head/Elected Official may also be involved, the supervisor should contact the County Auditor or District Attorney. Failure to report the avoidance of established internal controls will be considered negligence and could result in disciplinary action or possible termination.

- B. Upon notification from an employee of the lack of internal controls, or if the supervisor has reason to believe there is a lack of internal controls, the supervisor shall immediately notify the Department Director/Elected Official of his/her department. When notification comes from an employee, the supervisor will respond to the employee within a reasonable time period of any action taken regarding the notification. The supervisor, with direct knowledge of the Department Director/Elected Official, should and may correct the lack of internal controls, updating the office policy to reflect the change and notifying the Auditor's Office of the changes. The Auditor's Office should be contacted for help in establishing, changing or evaluating internal controls as necessary.
3. Department Director/Elected Official
- A. Upon notification from an employee or supervisor of avoidance of established internal controls, or if the Department Director/Elected Official has reason to suspect the avoidance of established internal controls, the Department Director/Elected Official shall immediately notify the County Auditor's Office. The Department Director/Elected Official shall not attempt to investigate the suspected avoidance of internal controls or to discuss the matter with anyone other than the County Auditor and the District Attorney. Failure to report the avoidance of established internal controls will be considered negligence and could result in disciplinary action or possible termination.
 - B. Upon notification from an employee or supervisor of the lack of internal controls, or if the Department Director/Elected Official has reason to believe there is a lack of internal controls, the Department Director/Elected Official, should and may correct the lack of internal controls, updating the office policy to reflect the change and notifying the Auditor's Office of the changes. When notification comes from an employee or supervisor, the Department Director/Elected Official will respond to the employee

or supervisor within a reasonable period of time of any action taken regarding the notification. The Auditor's Office should be contacted for help in establishing, changing or evaluating internal controls as necessary.

4. Human Resources Department
 - A. Upon notification of any absence or avoidance of internal controls the Human Resources Director should immediately notify the County Auditor. The Human Resources Director shall not attempt to investigate the suspected avoidance of internal controls or to discuss the matter with anyone other than the Department Director/Elected Official, the County Auditor and the District Attorney. Failure to report the avoidance of established internal controls will be considered negligence and could result in disciplinary action or possible termination.
5. County Auditor/Internal Audit
 - A. Upon notification or discovery of avoidance of internal controls, the County Auditor will promptly coordinate the investigation of possible fraud with the District Attorney. The Internal Audit group will follow up on the lack of internal controls that may be identified during the investigation.
 - B. Upon discovery or notification of the lack of internal controls, or a request for help establishing, changing or evaluating internal controls by a department, the County Auditor's Internal Audit group will follow up with the department.
6. The District Attorney's office will coordinate the investigation of any criminal action reported or identified in the course of an audit or investigation with the County Auditor to address relevant issues of fraud or other actions resulting from the audit or investigation.

PROCEDURES

1. Documentation/Record Security
 - A. Maintaining a record of any notifications and the resulting follow-up to that notification should be made by applicable parties to be used in any further investigation.
 - B. A successful audit/investigation can only be performed if the documentation relating to an internal control issue and possible alleged fraud is available for review in its original form. Therefore, once notified of an avoidance of internal controls, the

Department Directors/Elected Official and supervisors shall take immediate action to prevent the theft, alteration, or destruction of relevant records or be considered negligent. Such actions include, but are not necessarily limited to, removing the records and placing them in a secure location, limiting access to the location where the records currently exist, and preventing all other individuals from having access to the records. The records must be adequately secured until the audit or investigation begins and records are turned over to the auditor or investigator.

2. Contacts/Protocol

A. After an initial review and a determination that the suspected activity warrants additional investigation, the County Auditor will notify the Commissioners Court, Human Resources Director and District Attorney of the allegations as appropriate. The County Auditor shall coordinate the investigation with the appropriate law enforcement officials and shall report its investigative findings as described in the following section entitled, "Disposition of Investigation."

3. Confidentiality

A. All participants in any investigation shall keep the details and results of the investigation confidential except as expressly provided in this administrative procedure. However, the County Auditor and the District Attorney may discuss the investigation with any person if such discussion would further the investigation.

4. Personnel Actions

A. If a suspicion is substantiated by the audit or further investigation, disciplinary actions shall be taken in conformance with the County's Personnel Policies and Procedures. A false or vindictive allegation of avoidance of internal controls or fraud is a violation of this administrative procedure. All violations of this administrative procedure, including violations of the confidentiality provisions, shall result in disciplinary actions up to and including termination.

5. Retaliation

A. It is a violation of this administrative procedure for any individual to be discriminated against for reporting fraud or for cooperating, giving testimony, or participating in an audit/criminal investigation, proceeding or hearing. Such individuals fall under the protection of the Whistle Blower Act.

6. Media Issues

- A. If the media becomes aware of an audit or criminal investigation, the appropriate supervisor or Department Director/Elected Official shall refer the media to the Office of Media Relations. The alleged actions and investigation shall not be discussed with the media other than through the Office of Media Relations.

DISPOSITION OF INVESTIGATION

At the conclusion of the audit and/or criminal investigation, the County Auditor and District Attorney's Office will document the results in a confidential memorandum report to the Commissioner's Court, with a copy to the appropriate Deputy County Administrator and Department Director/Elected Official. If the report concludes that the allegations are founded, the report will be copied to the Human Resource Director.